

Message Text

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C O N F I D E N T I A L MEXICO 8668

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SUBJ: TOPICS FOR PRESIDENTIAL MEETING: INFLATION

1. THE MINISTRY OF FOREIGN AFFAIRS HAS INFORMED US OF GOM INTEREST IN PRESIDENTIAL DISCUSSION OF INFLATION AND PRICE CONTROLS. THIS COULD INCLUDE GOM DESIRE: (A) TO LEARN FROM U.S. EXPERIENCE; (B) TO RECEIVE USG VIEWS ON MANAGING MEXICAN PROBLEMS; AND (C) WHAT SEEMS MOST LIKELY, TO LEARN HOW US PROGRAM MIGHT IMPACT MEXICO ECONOMY.

2. INFLATION ALONG WITH STAGNANT AGRICULTURAL PRODUCTION, IS MAJOR ECONOMIC PROBLEM FACING MEXICO. GOM'S ANTI-INFLATION PROGRAM OUTLINED IN MEXICO A-431, SEPT 19, AND MEXICO CABLES 8229 AND 8516. IN BRIEF, MEXICO TRYING TO REDUCE INFLATIONARY PRESSURES THROUGH TIGHTER FISCAL AND MONETARY POLICIES WHILE ATTEMPTING TO ALLEVIATE IMPACT OF INFLATION ON LOWER INCOME GROUPS THROUGH A COMPLICATED PRICE CONTROL MECHANISM AND ANNUAL RATHER THAN BI-ANNUAL WAGE SETTLEMENTS.

3. MEXICANS HAVE INDICATED PARTICULAR INTEREST IN DISCUSSING PRICE CONTROL MECHANISM AND HAVE PROVIDED US TRANSCRIPT OF MINISTER OF INDUSTRY COMMERCE, CAMPILLA SAINZ, PRESS CONFERENCE AND COPY OF DECREE IN ENGLISH WHICH WE POUCHED TO MEXICAN DESK - DREYFUS. NEW MECHANISM DESCRIBED IN MEXICO 8229. NEW MECHANISM HAS EXACERBATED RELATIONS WITH BUSINESS GROUP WHO FEAR GOM WILL CUT INTO THEIR

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PROFITS TO SLOW DOWN PRICE INCREASES. IN RECENT PUBLIC

STATEMENTS, GOM OFFICIALS HAVE EMPHASIZED POLICY OF MAINTAINING REAL INCOME FOR LOWER-INCOME GROUPS, THOUGH PAYING LIP-SERVICE TO BUSINESS BY SAYING THEY DO NOT INTEND TO REDUCE PROFITS.

4. WE DO NOT BELIEVE GOM WILL FIND IT POSSIBLE TO ADMINISTER BROAD PRICE CONTROL SYSTEM. IN ADDITION TO DISADVANTAGES OF ANY PRICE CONTROL SYSTEMS, IT COULD RESULT IN MANY BLACK MARKETS AND BENEFIT INDIVIDUALS WHO ENGAGE IN WHAT BECAME ILLEGAL ACTIVITIES. IN OUR VIEW GOM SHOULD CONCENTRATE ON REDUCING INFLATIONARY PRESSURES THROUGH MACRO-ECONOMIC POLICIES. SUCH A PROGRAM SHOULD BE POSSIBLE WHILE MAINTAINING A REAL GROWTH RATE IN EXCESS OF POPULATION GROWTH.

5. GOM HAS ALSO BLAMED MUCH OF MEXICO'S INFLATION ON INTERNATIONAL FACTORS AND THE DEVELOPED COUNTRIES. WE WOULD ESTIMATE INTERNATIONAL FACTORS AS ACCOUNTING FOR PERHAPS ONE-THIRD OF MEXICO'S INFLATION AND DOMESTIC FACTORS, PRIMARILY EXCESSIVE PUBLIC EXPENDITURES, ACCOUNTING FOR THE BALANCE. IN THIS CONTEXT, AND BECAUSE OF THE IMPORTANCE OF THE U.S. ECONOMY TO MEXICO, WE PRESUME PRESIDENT ECHEVERRIA WILL BE INTERESTED IN U.S. ANTI-INFLATIONARY PROGRAM AND ITS POTENTIAL IMPACT ON MEXICAN ECONOMY. WE SEE THIS AS FALLING IN SEVERAL POSSIBLE AREAS, INCLUDING: (A) STABILIZATION OF DEMAND IN U.S. THIS COULD IMPACT ON GOM'S EFFORTS TO INCREASE EXPORTS; (B) EXPORT CONTROLS. THIS COULD IMPACT ON MEXICO'S GROWTH BY CREATING FURTHER SUPPLY BOTTLENECKS. SHOULD EXPORT CONTROLS INCLUDE AGRICULTURAL PRODUCTS, SERIOUS FOOD SHORTAGES COULD RESULT IN MEXICO WITH POLITICAL REPERCUSSIONS; (C) TIGHT MONETARY POLICY. THIS IS MAKING EXTERNAL BORROWING BY MEXICO MORE DIFFICULT. SEE MEX 8232; (D) REDUCED U.S. FOREIGN AID. THIS COULD IMPACT ON MEXICO VIA LENDING PROGRAMS OF WORLD BANK AND IDB, AND FORCE GREATER RECOURSE TO MORE EXPENSIVE PRIVATE CAPITAL MARKET.

6. POSSIBLE IMPACT ON U.S. OF MEXICO'S ANTI-INFLATION PROGRAM IS, OF COURSE, LIMITED BECAUSE OF RELATIVE SIZES OF ECONOMY. WE RECOMMEND THAT U.S. SUPPORT AND ENCOURAGE

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MEXICO'S EFFORTS TO REDUCE RATE OF INFLATION, WITH PARTICULAR EMPHASIS ON FISCAL POLICIES - TIGHTER CONTROL OVER PUBLIC SECTOR EXPENDITURES AND INCREASES IN REVENUE. SUCH A POLICY IMPORTANT IN MAINTAINING PRESENT PESO-DOLLAR PARITY WHICH WE BELIEVE TO BE IN OUR MUTUAL INTEREST.
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